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AP

NJ Invests in Citigroup, Merrill Lynch

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By Tom Hester Jr., Associated Press Writer

New Jersey State Fund Sees Opportunity in Investing in Citigroup, Merrill Lynch

TRENTON, N.J. (AP) -- Tucked amid the major foreign investment funds and well-known Wall Street investors providing cash to struggling Citigroup and Merrill Lynch was the New Jersey Division of Investment.

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The division invested \$400 million in pension funds in Citigroup Inc. preferred stock and \$300 million in Merrill Lynch & Co. preferred stock. The investments pay a much higher return than common shares, as the investment banks offer premiums to big investors willing to provide cash to help them weather the global credit problems.

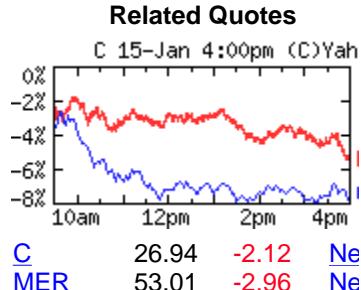
"These investments give the division the opportunity to increase its exposure to two of the strongest franchises in the global financial services marketplace," said William G. Clark, the division's

director. "In both cases, the investments provide for a significant current yield and the opportunity to benefit from potential appreciation in the underlying common stock of these firms."

The Citigroup preferred stock that the state fund is getting, for instance, will pay a 7 percent annual dividend and a premium above market price when converted into common stock. Also Tuesday, Citigroup cut its dividend to common shareholders by 41 percent to preserve cash.

Sue Burrows Farber, the division's chief administrative officer, said the division "negotiated terms that we think were lucrative to our pension fund."

"The timing of these investments coincides with the division's view that opportunities have now emerged within the financial services sector that appear attractive from a

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long-term perspective," Clark said.

New Jersey's governor, Jon S. Corzine, is a former chairman of the investment firm Goldman Sachs and has proposed increasing highway tolls to cut state debt, but Burrows Farber said the governor's office had no role in the investment decisions.

In total, Citigroup announced a \$12.5 billion capital injection, while Merrill Lynch secured \$6.6 billion in investments from other big investors including the Government of Singapore Investment Corp., the Kuwait Investment Authority and Prince Alwaleed bin Talal of Saudi Arabia.

New Jersey's pension fund is worth \$81.3 billion and is among the 10 largest public fund managers in the United States. It provides retirement benefits for more than 700,000 current and future retirees in seven public systems.

The pension funds provide retirement benefits to teachers, judges, prosecutors, police, firefighters and state, county and local government workers. The benefits granted to those workers are guaranteed by state law and cannot be reduced.

But as the state largely failed to fund the pension system from 1993 to 2006, lawmakers increased pension benefits, and stock market woes drained the fund, it now has an estimated deficit of about \$25 billion.

Given that, the state has been trying to diversify its portfolio to help boost a return on its investment. The state also has contributed more than \$2 billion to the fund since 2006.

According to its Web site, the division has 35.5 percent of its investments in domestic stocks and no exposure to securities backed by subprime mortgages, many of which have fallen into default, creating problems for firms like Citigroup and Merrill Lynch and creating global credit woes.

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